

AUDITORS' REPORT

RSM Nelson Wheeler

羅申美會計師行

Certified Public Accountants

TO THE SHAREHOLDERS OF LIFETEC GROUP LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 25 to 85 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as below:

(1) **Scope limitation – Impairment of intangible assets, payments for investments and interests in subsidiaries**

- (a) As at 31 December 2005, the Group had intangible assets of HK\$65,037,000 in connection with the beneficial rights to drugs under development not yet available for use as detailed in note 20 to the financial statements. However, we were unable to obtain sufficient information and explanations to assess whether any impairment in value should be recognised in respect of the intangible assets amounting to HK\$65,307,000 as stated in the consolidated balance sheet as at 31 December 2005;

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- (b) Included in the payments for investments as at 31 December 2005 was a deposit paid for the acquisition of a subsidiary of HK\$19,989,000 as detailed in note 22 to the financial statements. However, we were unable to obtain sufficient information and explanations to assess whether there is any impairment in the underlying values of the assets to be acquired under the deposit, i.e., beneficial rights in a drug under development not yet available for use held by the company to be acquired, and accordingly whether any allowance should be made in respect of the deposit amounting to HK\$19,989,000 as included in the consolidated balance sheet as at 31 December 2005;
- (c) Included in the payments for investments as at 31 December 2005 were five deposits paid for the acquisition of beneficial interests of five drugs under development not yet available for use of HK\$53,654,000 and the corresponding consultancy fees for soliciting the drugs under development projects capitalised of HK\$1,148,000 as detailed in note 22 to the financial statements. However, we were unable to obtain sufficient information and explanations to assess whether there is any impairment in the values of the underlying assets to be acquired under the deposits, i.e., beneficial rights to five drugs under development not yet available for use, and accordingly whether any allowance should be made in respect of the deposits amounting to HK\$53,654,000 and the corresponding consultancy fees for soliciting the drugs under development projects capitalised of HK\$1,148,000 as included in the consolidated balance sheet as at 31 December 2005;
- (d) Included in the Company's balance sheet as at 31 December 2005 are interests in subsidiaries at a carrying amount of HK\$220,588,000. We were unable to assess whether there is any impairment in the value of the interests in subsidiaries due to the limitations in the scope of our work in respect of the assets held by the related subsidiaries referred to in points 1(a) to 1(c) above.

Any adjustments found to be necessary to the figures set out in points 1(a) to 1(d) above would affect the net assets of the Group and the Company as at 31 December 2005, the loss of the Group for the year then ended and the related disclosures thereof in the financial statements.

(2) Scope limitation – Prior year's audit scope limitation affecting opening balances

The former auditors issued a qualified opinion arising from limitation of audit scope on the financial statements of the Group and the Company for the year ended 31 December 2004. As detailed in their report dated 28 April 2005 on the financial statements of the Group and the Company for the year ended 31 December 2004, they were unable to obtain sufficient information and evidence to assess whether any impairment in value should be recognised in respect of the intangible assets of HK\$46,744,000 and the payments for investments of HK\$69,955,000 as stated in the consolidated balance sheet as at 31 December 2004; and in respect of the interests in subsidiaries of HK\$226,101,000 as stated in the Company's balance sheet as at 31 December 2004.

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We were unable to obtain sufficient evidence to assess the impact of the matters mentioned above on the financial statements of the Group and the Company for the year ended 31 December 2005. Any adjustments found to be necessary in respect thereof had we obtained sufficient evidence would have had a consequential effect on the equity of the Group and the Company as at 1 January 2005, the loss of the Group for the year ended 31 December 2005 and the related disclosures thereof in the financial statements for the year ended 31 December 2005.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the opening balances mentioned in point 2 of the "Basis of opinion" section; and the intangible assets, the payments for investments and the interests in subsidiaries as mentioned in points 1(a) to 1(d) of the "Basis of opinion" section, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the opening balances, the intangible assets, the payments for investments and the interests in subsidiaries, we have not obtained all the information and explanations we considered necessary for the purposes of our audit.

Certified Public Accountants
Hong Kong

27 April 2006